

# New Mexico State Auditor

*Elected for Better Government*

---

**Revenue Stabilization and Tax  
Policy Committee  
July 22, 2015**



# Agenda

- **Overview of the Office of the State Auditor (OSA)**
- **Special Investigations**
- **Government Accountability Office (GAO)**
- **NM's Financial Health**
- **Fund Balance Report, Vol 1-State Agencies**



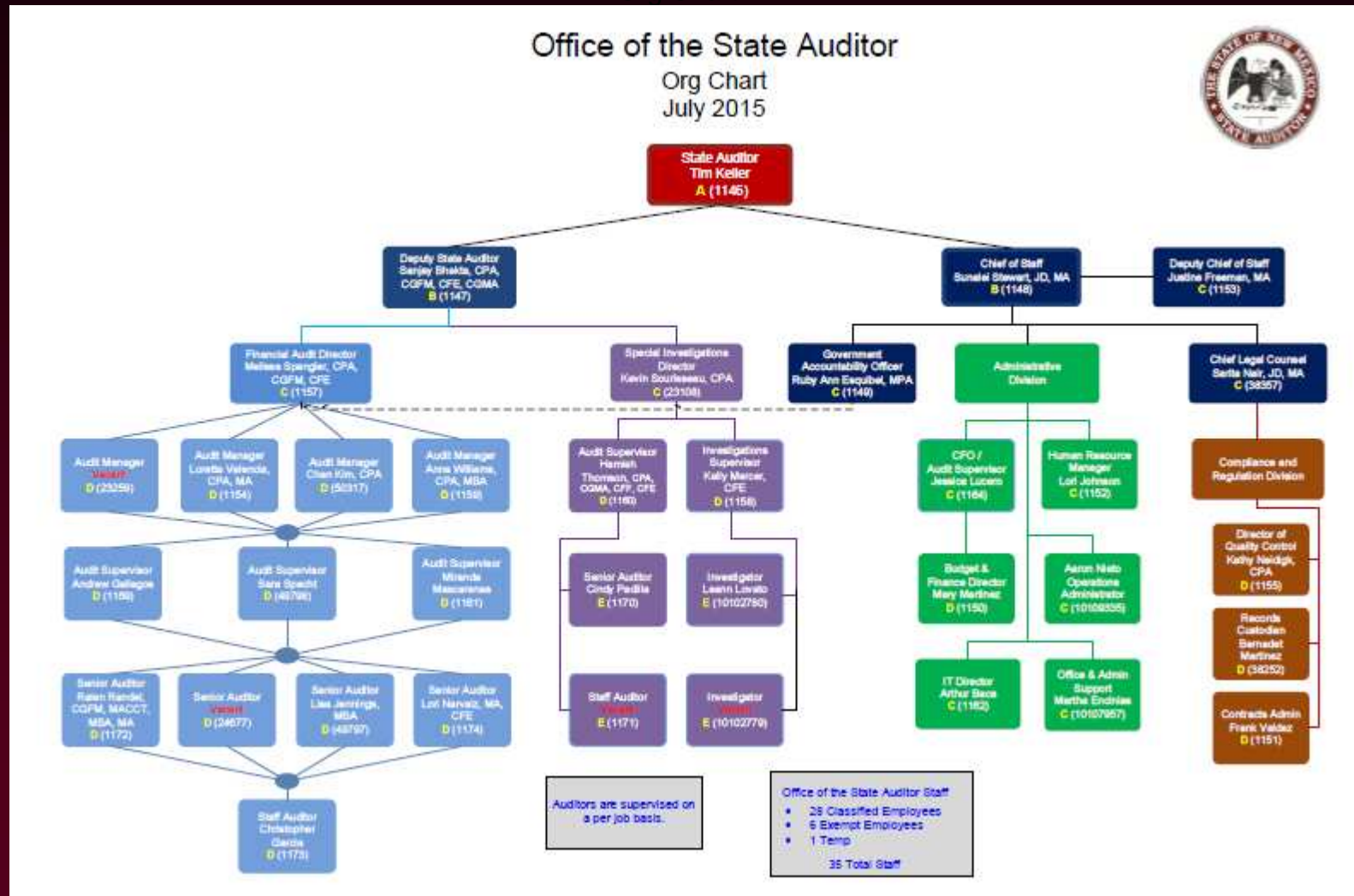
# Overview of the OSA

# Evolution of NM's State Auditor

- **Financial Audits**
  - Findings
  - At Risk
- **Forensic Audits**
  - Fraud, Waste and Abuse
- **Performance Audits**
  - GAO
- **Regulating Accounting Industry**

# The Office of the State Auditor (OSA)

## Office of the State Auditor Org Chart



# Constitutional Authority of Office

- **Statewide office created by the New Mexico Constitution (Article V, Section 1). “Historically and fundamentally, the Office of State Auditor was created and exists for the basic purpose of having a completely independent representative of the people, accountable to no one else, with the power, duty and authority to examine and pass upon the activities of state officers and agencies who, by law, receive and expend public moneys.” Thompson v. Legislative Audit Comm’n (1968).**

# **Statutory Authority of Office**

- **Section 12-6-3(A) NMSA 1978 mandates that the financial affairs of every agency be thoroughly examined and audited each year by the State Auditor, personnel of his office designated by him, or by independent auditors approved by him; and the audits be conducted in accordance with generally accepted auditing standards and rules issued by the State Auditor.**

# Statutory Authority of Office

- **NMSA 1978, § 12-6-3 states, “In addition to the annual audit, the state auditor may cause the financial affairs and transactions of an agency to be audited in whole or in part.” Sections 2.2.2.15(A) and (B) detail the process by which the OSA may “initiate a special audit, performance audit or attestation engagement regarding the financial affairs and transactions or an agency....”**



# **Statutory Authority of Office**

- **Section 12-6-3(B) NMSA 1978 establishes a tiered system of financial reporting for local public bodies in which the amount of a local public body's annual revenue determines whether the local public body is subject to agreed upon procedures engagements.**
- **See Section 2.2.2.16 NMAC for information applicable to local public bodies.**

# New Mexico Government Agencies

Agency Name		Number	
State Agencies	104	Regional Housing Authorities	3
Council of Governments	7	Soil & Water Districts	48
Municipalities	107	Special Districts	57
Counties	35	Mutual Domestic Water Association	213
School Districts	89	Regional Education Coops	11
State Chartered CS (58) District Charter Schools (39)	97	Workforce Development Board	5
Higher Education (17) and Comp. Units- (23)	40	Charter Schools Component Units	2
District Attorneys	15	Public Improvement Districts	11
District Courts	14	Tax Increment Development Districts	8
Hospitals	13	Land Grants	31
Housing Authorities	45	Acequias and Ditches	27
Total Entities 980			

# **Office of the State Auditor Vision**

**Helping government work better by  
combating fraud, waste and abuse**

- Annual Audit Accountability and Finding Reduction**
- Accessible and responsive to agencies and IPAs**
- Government Accountability Office (GAO)**
- Support for At Risk Entities**

# Support for At Risk Entities

- **Special Political Subdivision (SPS) audit support program**
  - \$160,000 in funds allocated
  - Almost \$400,000 in demand for audit support
  - Basic need based criteria for evaluation
- **Increased in house capabilities**
  - More CPAs
  - More in house audit and special investigation work
- **Integration with representative associations**
  - Land Grants, Acequias, Mutual Domestics, etc.



# Special Investigations Division

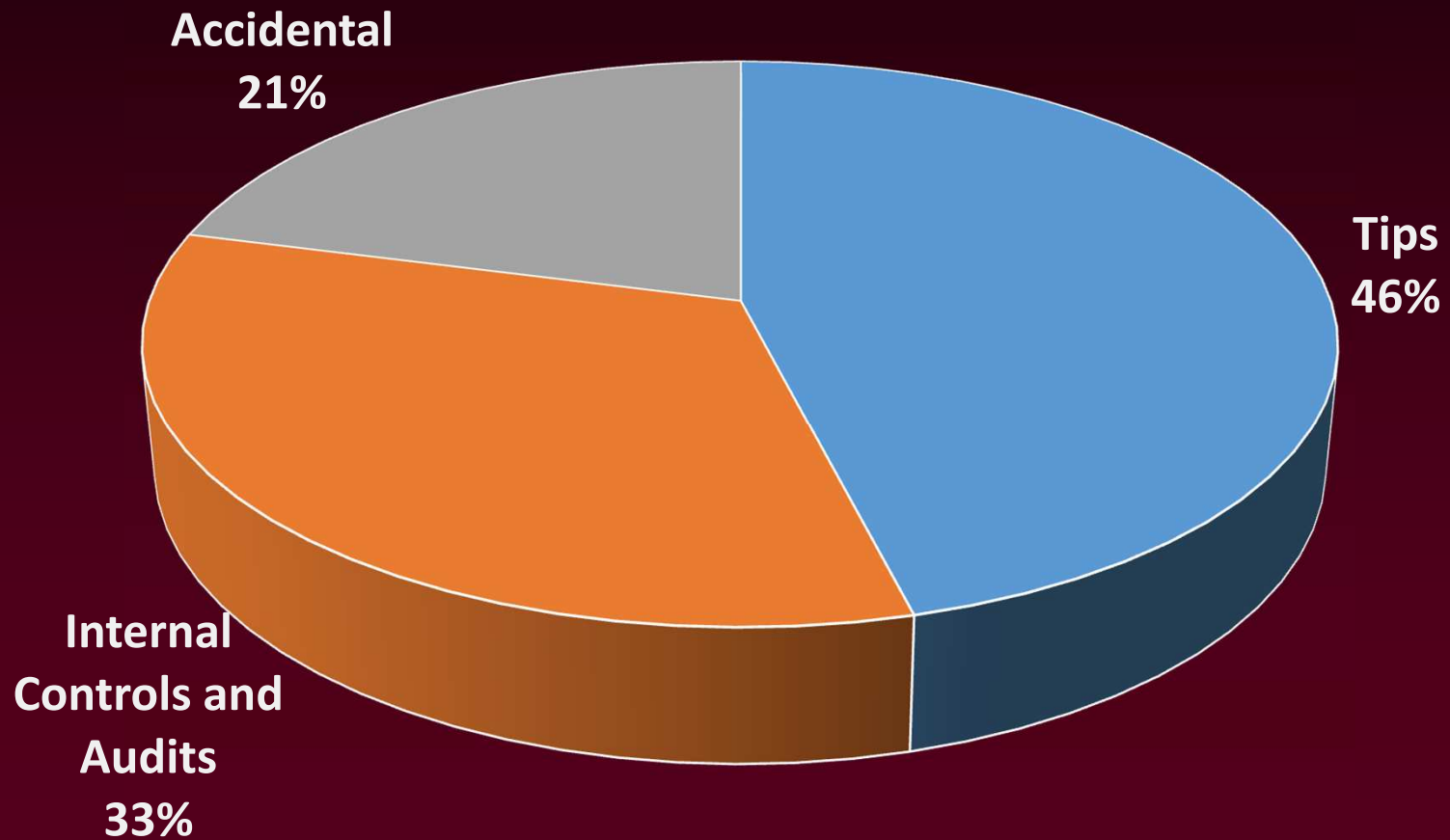
# OSA Fraud Hotline



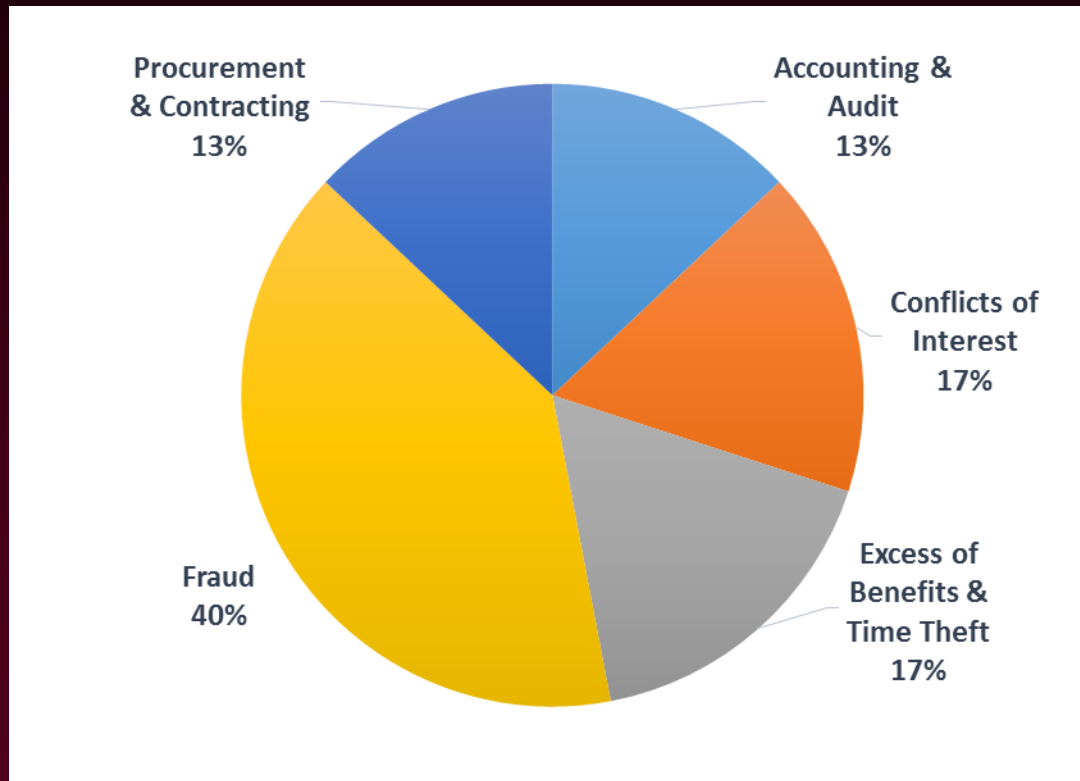
- [www.osafraud.org](http://www.osafraud.org)
- 1-866-**OSA-FRAUD**  
or 1-866-672-3728



# ACFE 2013 Statistics: How Fraud is Discovered



# Breakdown of OSA Fraud Hotline Reports





# Special Investigations

- **Torrance County (Special Audit)**
- **Village of Hatch (Special Audit)**
- **TASER (Risk Review)**
- **McKinley County Sheriff's Office (Special Audit)**
- **City of Alamogordo (Special Audit)**
- **Cibola County (IPA Referral - Indictment)**
- **Eastern New Mexico University - Roswell (Designation)**
- **City of Santa Fe (Designation)**
- **Taxation and Revenue Department (Predicate Investigation)**



# Government Accountability Office (GAO)

# **Transparency and Accountability**

- **Support the Office of the State Auditor in meeting constitutional responsibilities, help improve performance, and ensure the accountability of state and local government for the benefit of the citizens of New Mexico.**
- **Goal is to provide information that is objective, fact-based, nonpartisan, fair, and balanced regarding policy initiatives that promote transparency and accountability to address fraud, waste and abuse challenges in public entities.**

# **Government Accountability Office**

- **Assess selected statewide financial practices such as fund balance management, contractual spending, and conduct return on investment expenditure analyses to analyze tax dollar distribution.**
- **Make it easier for the public to have access to information and how the State Auditor ensures that problems are addressed by public governments.**



# NM's Financial Health

# About Audits

## What is an Audit?

- In a government audit, an auditor determines whether the financial statements of an entity are presented fairly in all material respects and in accordance with accounting standards by reviewing the underlying information and processes that went into preparing the financial statement.

## What is an Audit Opinion?

- Audit reports include an opinion as to whether there is a reasonable assurance that the financial statements are free from material misstatements.

## What is a Finding?

- In addition to the opinion, an audit report may contain a “finding” indicating a deficiency or an issue of non-compliance found by the auditor when conducting test work.

# Annual Financial Health Report Card

## "At Risk" Designation through Fiscal Year 2014

Group	Agency #	Agency Name	Last Year of Compliance with the Audit Act	Last Year Financial Opinion Issued by IPA *
Hospitals	2084	Roosevelt General Hospital	FY13	Unmodified
Municipality	6032	Village of Cimarron	FY13	Unmodified
Municipality	6060	City of Espanola	FY11	Disclaimer
Municipality	6072	Village of Folsom	FY10	Unqualified
Municipality	6090	Village of Hope	FY11	Unqualified
Municipality	6100	Town of Lake Arthur	FY10	AUP (No Opinion)
Municipality	6146	Village of Reserve	FY12	Unqualified
Special Districts	4021	Hammond Conservancy District	FY08	Unqualified
Special Districts	4031	North Central Solid Waste Authority	FY09	Adverse
Special Districts	4039	Vermejo Conservancy District	FY13	Unmodified
Special Districts	4080	Rio San Jose Flood Control District	FY04	Unqualified
Special Districts	4090	Yah-ta-hey Water & Sanitation District	FY06	Disclaimer
Special Districts	4098	Ramah Water & Sanitation District	FY12	AUP (No Opinion)
State Agency	605	Martin Luther King, Jr. Commission	FY13	Unmodified
State Agency	662	Miners' Colfax Medical Center	FY13	Unmodified
State Agency	669	Health Policy Commission	FY09	Unqualified
State Agency	924	Public Education Department	FY13	Unmodified

On 2013 "At Risk List"

July 15, 2015

# **Audit and Finding Trends**

- **Good news, over 90% of entities have unmodified opinions**
- **Audits contain 2,000+ findings**
- **Need for corrective action as approximately 40% of findings repeated**
- **Most Common Findings Include:**
  - **Payroll/Related Liabilities and Related Issues**
  - **State Law Compliance**
  - **Budgetary Compliance**
- **Lack of resources, priority, capabilities and training**
- **Fraud, Waste and Abuse**





# Fund Balances Report

## Vol 1-State Agencies

# **Fund Balances Report Background**

- **New Mexico has limited resources and substantial needs**
- **State needs to take advantage of every tax dollar**
- **Report recognizes agencies required to maintain reserves**
  - **Expenditure delays occur due to requirements and red tape**
  - **Capital outlay roll-out takes time**

# **Fund Balances Report Data Source**

- **Audits provide valuable information regarding the state's finances and the use of public funds.**
- **Report was a compilation of the most current independently audited financial statements of state agencies corresponding to statutory and accounting standard's fund and category definitions.**

# **Fund Balances Report Summary**

- **Report found \$4.2 billion in over 700 funds that have been designated, but not spent**
- **\$473 million in restricted special revenue funds**
- **\$462 million in unspent water-related funds**
- **\$338 million in debt service funds**
- **\$30 million in unspent assigned and unassigned general funds**

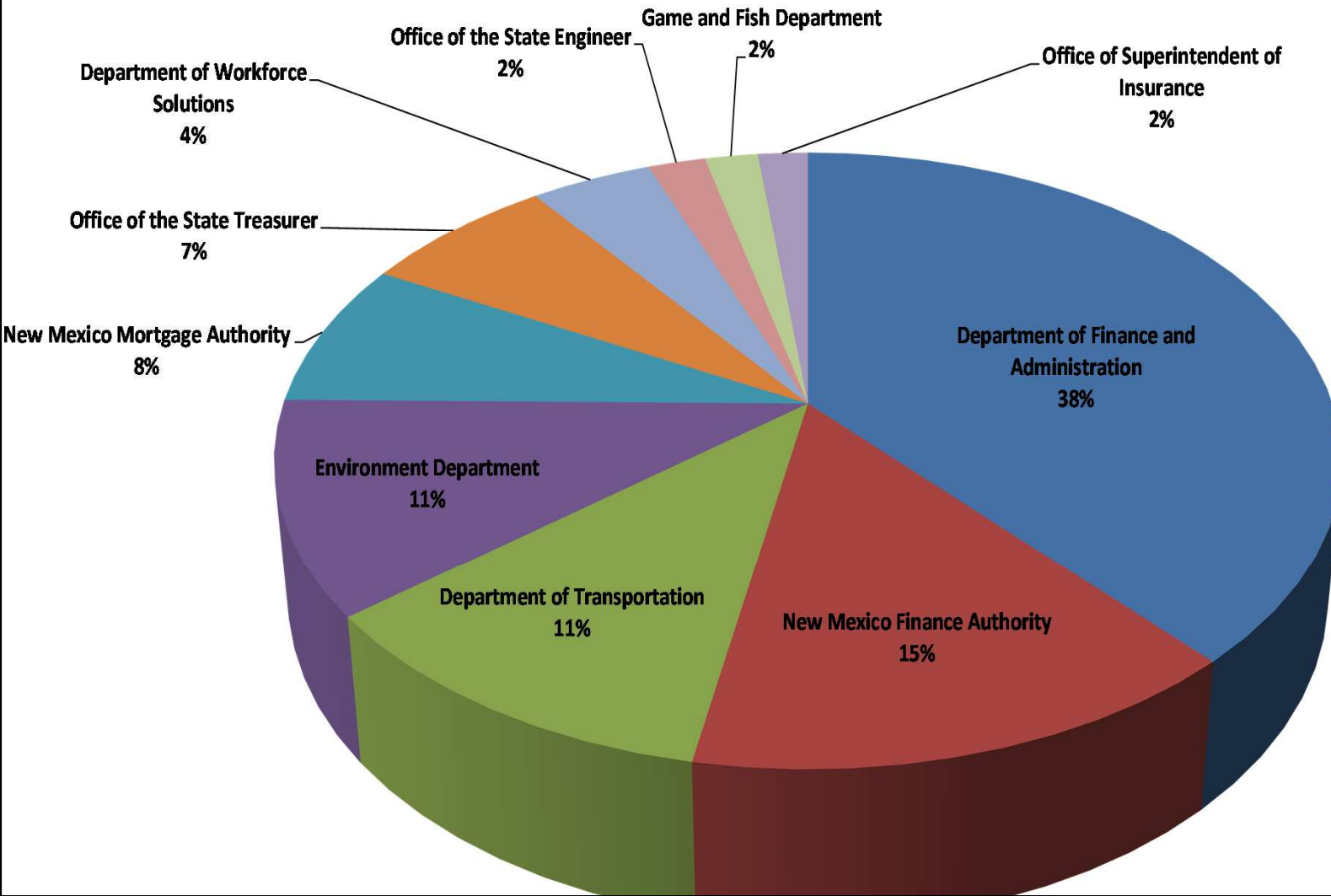
# **GAO's Fund Balances Report**

## **What it Did Not Do**

- **Report did not state the funds should be reallocated for other uses (pages 4-5), and said OSA “withholds judgement as to what should or should not occur with respect to the balances of these funds.”**
- **Report did not suggest “to deplete [General Fund] rainy day funds,” but said “The New Mexico Constitution requires the state to have a balanced budget, so it is critical that state government maintains general fund reserves to cover any shortfalls if revenues are lower or expenses are higher than projected” (page 4).**
- **Report includes 8 pages describing the various types of funds and the restrictions on their uses (pages 7-9, pages 21-25), does not imply the funds are “new” money that can be used without limitation, states the funds are primarily from past legislative appropriations and generated fees, and says funds are designated for a specific purpose and most do not revert to the state general fund.**

# Agencies with Largest Balance

Top 10 State Agencies with Largest Unspent Total Fund Balances

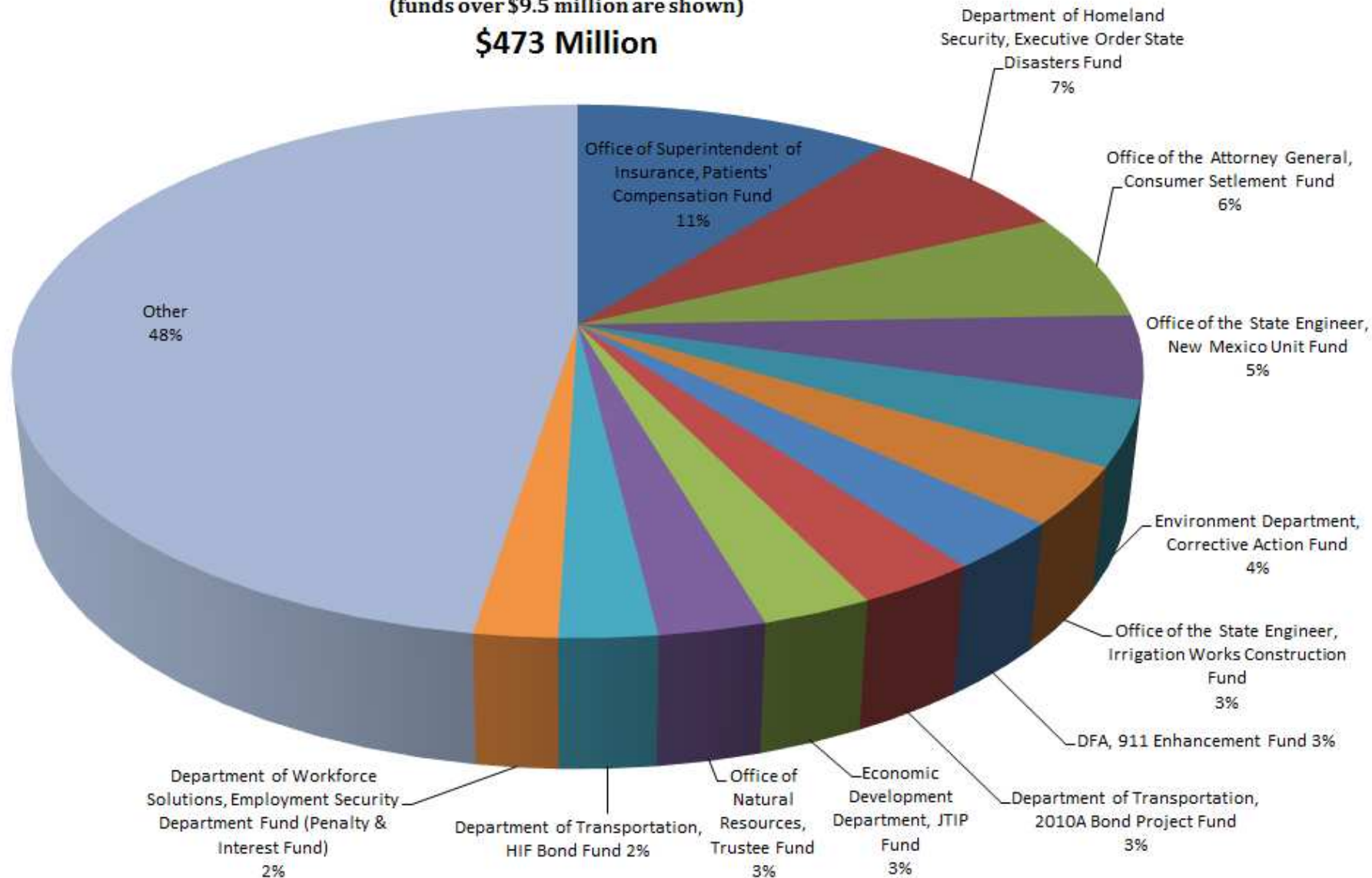


# Special Revenue Funds

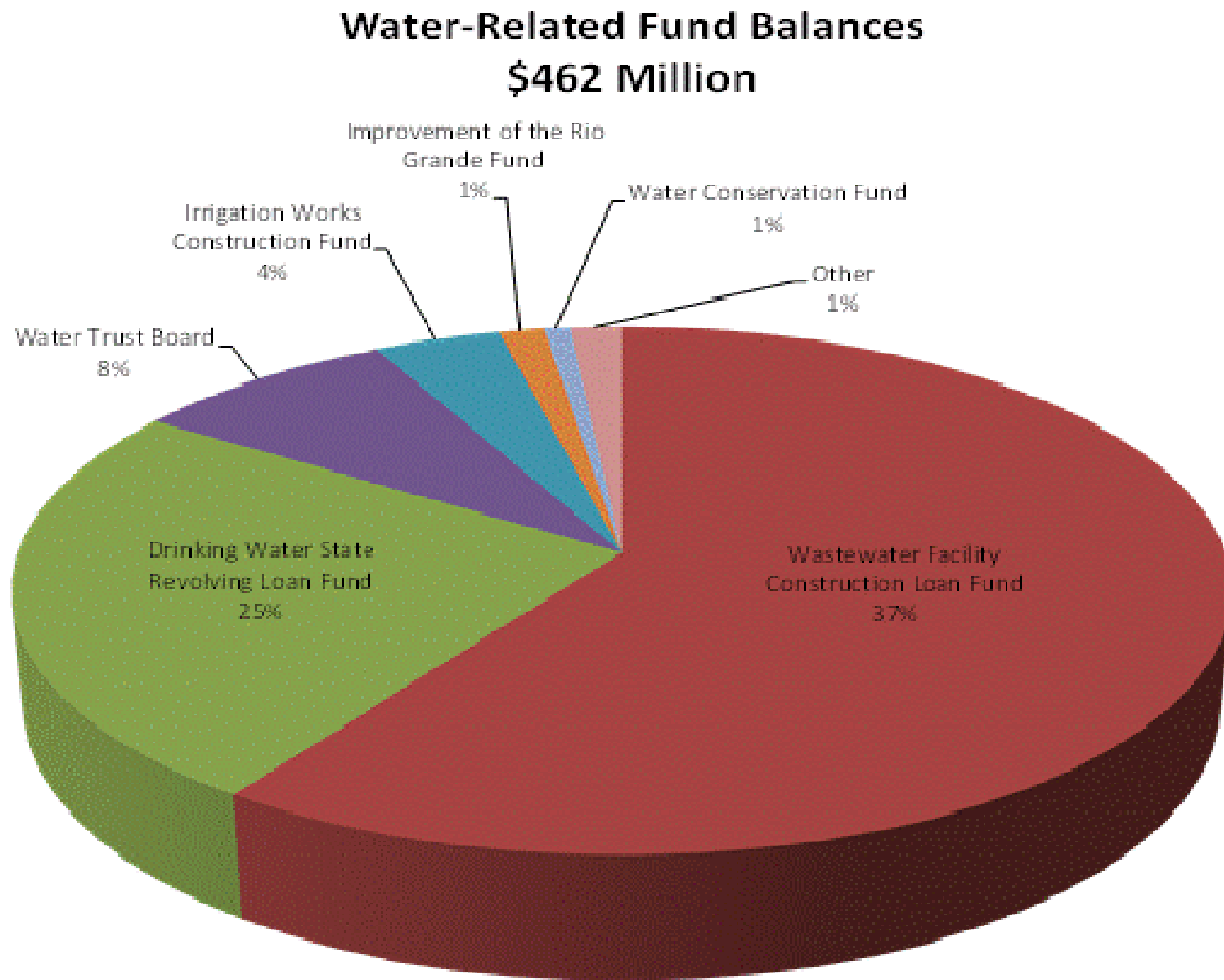
## Funds Restricted for Special Purposes

(funds over \$9.5 million are shown)

**\$473 Million**



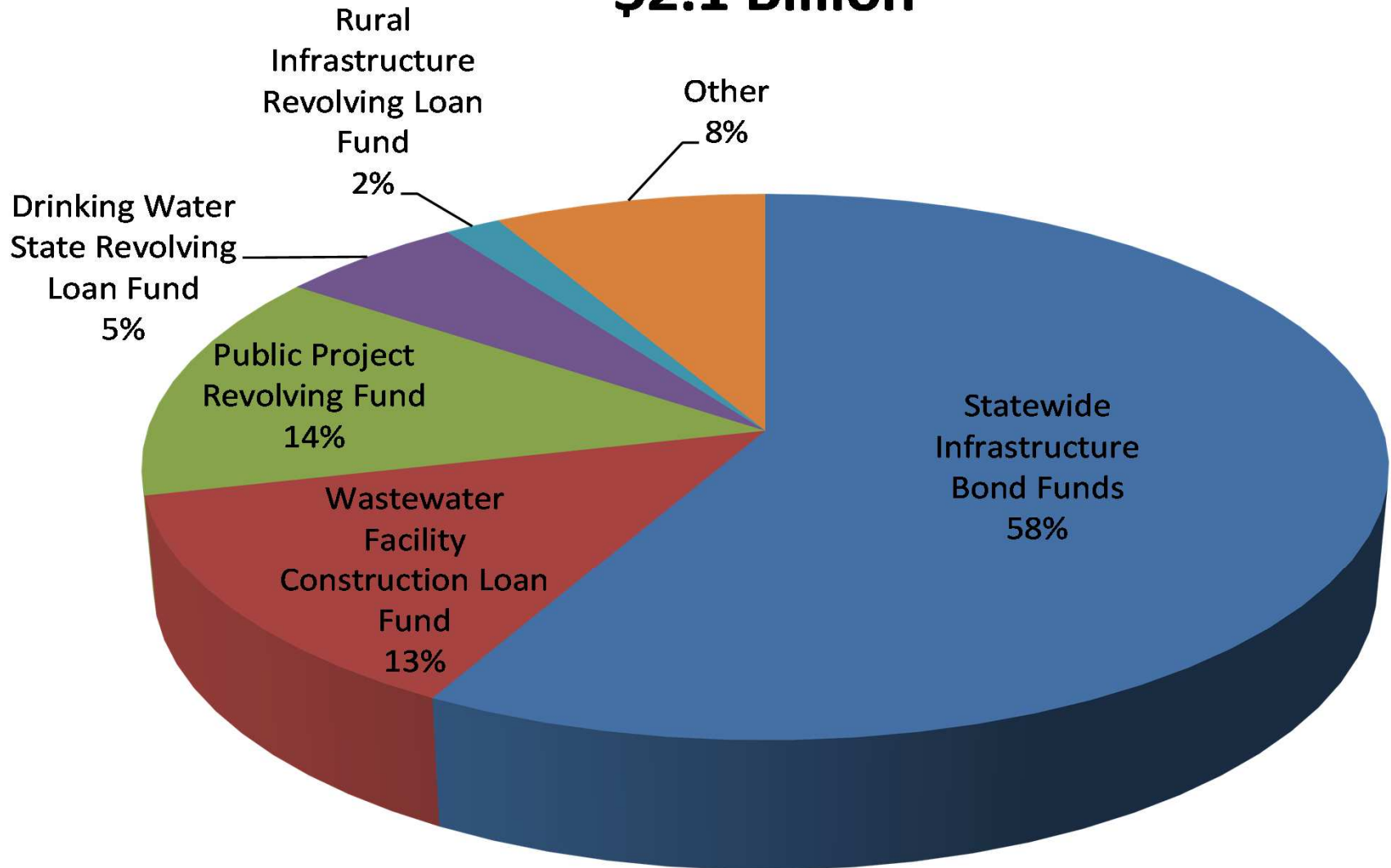
# Water Related Funds





# Infrastructure Funds

## Unspent Infrastructure Funds \$2.1 Billion



# NMFA Fund Balance Status

- **FY14 NMFA audit & fund balance report**
  - \$100.1M public project revolving fund
  - proprietary restricted; \$178.6M PPRF
  - proprietary unassigned
- **NMFA reports for PPRF:**

Program	Date	Project #	City	Total Amount Designated	Project Funds- 06/30/2014	Project Funds- 04/30/2015
PPRF	6/13/2014	EDGEWOOD 4	Edgewood	\$3,670,000.00	\$3,645,157.18	\$3,256,727.61
PPRF	10/21/2011	ESCAFCA	Bernalillo	\$3,000,000.00	\$1,787,760.51	\$1,765,277.98
PPRF	12/21/2010	LASVEGAS11	Las Vegas	\$3,104,264.00	\$1,825,597.31	\$1,803,347.27
PPRF	12/10/2010	NMSPACE 2	Las Cruces	\$18,429,000.00	\$5,712,766.05	\$2,113,378.13
PPRF	5/31/2013	RATON17	Raton	\$924,580.00	\$821,190.23	\$803,102.80
PPRF	5/18/2012	RIOARRIBA 3	County	\$3,333,000.00	\$3,338,359.53	\$2,250,430.41
PPRF	11/25/2013	SOCORROCTY25	County	\$1,000,000.00	\$1,000,664.83	\$972,674.69

# Environment Dept Fund Balance Status

- **FY14 NMED audit & fund balance report**
  - \$275.1M in wastewater facility construction loan fund (WFCLF) proprietary restricted (aka clean water state revolving fund)
- **NMED reports for WFCLF:**

<u>Name</u>	<u>Funding Date</u>	<u>Loan Amount</u>	<u>Current Construction Projects Balance</u>
RIO RANCHO CWSRF 008	04-Sep-09	\$25,000,000.00	\$8,952,229.44
CARLSBAD CWSRF 010	29-Apr-10	\$18,000,000.00	\$1,921,609.34
CHAMA CWSRF 013	12-Dec-11	\$100,000.00	\$50,072.69
SANDOVAL COUNTY/CUBA CWSRF 006	18-Jan-12	\$360,000.00	\$242,381.30
CORRALES CWSRF 011	20-Jan-12	\$540,000.00	\$114,015.34
JEMEZ SPRINGS CWSRF 019	05-Apr-13	\$135,726.00	\$42,416.45
PORTALES CWSRF 023	27-Aug-13	\$26,580,000.00	\$13,100,600.52
FARMINGTON CWSRF 012	03-Feb-15	\$14,000,000.00	\$14,000,000.00

# State Engineer Fund Balance Status

- **FY14 OSE audit & fund balance report**
  - **\$16.4M irrigation works construction & \$24M NM unit fund special revenue restricted funds**
- **OSE reports:**

Appr ID	Title	FundCode	Approp	ExpendAmt	Balance	Expiration
09-3009	INDIAN WATER RIGHTS SETTLEMENT-NAVAJO/TAOS/AAMODT 55	STB	10,000,000.00	8,810,590.00	1,189,410.00	6/30/2015
11-1303	SEO INDIAN WATER RIGHTS SETTLEMENT	STB	15,000,000.00	10,014,307.86	4,985,692.14	6/30/2016
12-1400	RIO DE CHAMA ACEQUIA ASSOC WATER & STORAGE RIGHTS	STB	100,000.00	-	100,000.00	6/30/2016
13-1107	SPRINGER DAMS 1 & 2 REHAB, RET	STBR	3,993,070.00	2,871,592.97	1,121,477.03	6/30/2015
13-1421	SEO SPRINGER DAMS CONSTRUCT & REHAB	STB	2,700,000.00	-	2,700,000.00	6/30/2017
13-1933	SEO SURFACE & GROUND WATER METERS-PPRF	PPRF	1,000,000.00	-	1,000,000.00	6/30/2017
14-1587	LAS VEGAS BRADNER DAM CONSTRUCT	STB	6,000,000.00	-	6,000,000.00	6/30/2018
14-1588	SEO SURFACE & GROUND WATER METERS STATEWIDE	STB	2,100,000.00	5,220.31	2,094,779.69	6/30/2018
14-1825	LOS LUNAS SILVERY MINNOW REFUGIUM PRODUCTION FCLTY	STB	900,000.00	70,771.04	829,228.96	6/30/2018
14-2155	PECOS RIVER COMPACT SETTLEMENT	AGSF	1,000,000.00	-	1,000,000.00	6/30/2018
14-2156	ISC ACEQUIAS IMPROVE STATEWIDE	AGSF	2,000,000.00	7,285.12	1,992,714.88	6/30/2018
14-2157	WATER RIGHTS FOR HABITAT RESTORATION STATEWIDE	AGSF	2,000,000.00	-	2,000,000.00	6/30/2018
14-2158	LAS VEGAS BRADNER DAM CONSTRUCT	AGSF	4,000,000.00	-	4,000,000.00	6/30/2018

# DOT Fund Balance Status

- **FY14 DOT audit & fund balance report**
  - \$25.1M special revenue restricted bond project funds; \$22.1M LGRF special revenue committed
- **DOT reports, in summary:**
  - 2014 \$311M total federal/state project funding (federal/state split of \$206.9M/\$32.4M, 2013-2014, 155 projects, 28 completed). \$128.2M remaining balance.
  - 2013-2014 \$20.4M total local government road fund projects (25% local match, 229 projects, 148 completed). \$4.8M remaining balance.

# Why Capital Outlay Fund Balances?

- **Lack of Matching Funds**
- **Partial Funding**
- **Project Phasing**
  - Both result in cost estimate increases and project restarts
- **Conflicting priorities**
- **Lack of prioritization**
- **Easier to fund than to actually build**

# Priorities? Medians on SE Central/RT-66





# Cutting Red Tape: I-25 and Paseo





# Capital Outlay-What Can Be Done

- **Address the executive order**
- **Appropriation discipline**
  - Fully fund
  - In place matching
  - Expiration dates and reversions
  - Phasing
  - Fiscal Agents
- **Prioritize not just funding, but building**
  - Roughly 50% of unspent funds are solely the responsibility of the administration
- **Centralized Red Tape Tzar or Task Force**

# What's Next for the GAO

- **Findings report**
- **Counties and Municipalities**
- **Schools**
- **Audit Rule and Accounting  
standardization of fund balance  
reporting**